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## NOTE ON THE RECENT INDUSTRIAL CRISIS AT THE SOUTH.

This country has lately passed through one of those periodical financial panics that for a time check the accumulation of that wealth so necessary to the further advancement of civilization. The phases of this crisis furnish much food for thought. The consensus of public opinion, as expressed properly, though tardily by our national legislature, decided that the Silver Purchase Law was the immediate cause of the disturbance. The Sherman Law, however, may be looked upon rather as having developed previously unstable conditions, than as being responsible *per se* for the results we have witnessed. Currency depreciation is the last symptom, not the original cause of commercial disease, and it would never have been threatened, had our business interests been conducted on those economic principles which lead to stability of wealth and value.

The natural and certain sequence of trade conditions causes a period of industry and prosperity to be followed by one of speculation fostered by reckless spending. The fruits of honest toil are inevitably caught in the maelstrom of chance investment, and a crisis is the result. History abounds in such experiences. The South Sea Company ruined half of England, in 1720, and John Law's Mississippi Scheme, a similar bubble, bankrupted France at the same time. The panics of America, likewise, of 1857 and 1873 were caused in the main, if not entirely, by speculation.

This, then, is the greatest of evils to the business public. The reckless personal extravagance and the craze for unwise and ill timed investments which these periods of financial prosperity bring upon a community, destroy more capital than any other destructive agency in our financial life. Legislation has little direct influence in producing these

panics. There is, as I have said, a certain sequence of conditions in trade which follow one another, as if controlled by some inscrutable law. The speculative craze is the apex of this sequence. The extent of this and the duration and severity of the reaction following, alone depend upon legislation.

The concomitant of speculation and the greatest aid to its destroying influence is the reckless extravagance which the fancied prosperity of these periods brings about. It protracts the speculative fever, for the greater volume of business done and the constantly rising prices seem to justify it; but it causes the decline of values to be greater and makes the distress more terrible, when a realization of the true condition of things does finally dawn. That the spending of the rich, or the apparently rich, should cause anything but ultimate advantage to the producing and trading classes, is a statement that seems at first blush revolutionary to the ordinary first principles of business. It would seem that the loss of the rich would be the gain of the merchant and manufacturer, and that the aggregate wealth of the community would be uninfluenced. As John Stuart Mill expresses it: "There is not an opinion among mankind more general than this, that the unproductive expenditure of the rich is necessary to the employment of the poor."

This belief has taken firm hold upon the mass of the people so that a great volume of business and a large amount of money spent, it matters not for what, cause them to argue a consequent greater prosperity and increase of wealth. This common error arises from a failure to separate the idea of wealth from that of money. A simple statement that capital is the result of saving is admitted by all. It is only upon a further complication of the phenomena of wealth by the introduction of money, that the popular mind revolts at the suggestion that any curtailment of spending could be of advantage to the community at large. And yet Adam Smith, the greatest of all writers on these subjects, says: "Parsi-

mony and not industry is the immediate cause of the increase of capital. Industry, indeed, provides the subject which parsimony accumulates. But whatever industry might acquire, if parsimony did not save and store up, the capital would not be greater."

To appreciate fully the truth of this, we must understand the primary relations between the factors — wealth, capital, and labor. The distinction between wealth and capital is one of activity. Wealth when it begins to produce, is capital. Capital is that part of wealth which is constantly effecting its own destruction and reproduction. It is the sustainer of labor and labor is its producer. Its beginning is in saving from industry, and when properly used, it can never be destroyed. Saving here does not mean hoarding, although the mind generally follows money said to be saved, into the imaginary strong box. What is saved in an economic sense can be invested and become a fund for the distribution of food to the laborer and establish itself in perpetuity as capital.

In contradistinction to the man who saves for productive investment stands the man who expends his fortune in unproductive consumption. This latter expression must not be misunderstood. The requisite food and clothing which are consumed and destroyed are the necessary protection and repair to the human machinery, and are the most productive of all investments. Nor are amounts spent in cultivating the mind or beautifying the natural surroundings, unproductive. Adam Smith draws this distinction well in his example of the rich gentleman who bought books, furniture, and statues, and his neighbor who spent his all on a wardrobe. In the course of a few years after the death of each the books, statues, and furniture had been of benefit to many others, while the fine clothes had long since been destroyed by use. By unproductive consumption is generally meant reckless and foolish extravagance. It is this that is most striking in its contrast with saving for investment. The distinction between the two is thus drawn by J. S. Mill:

Saving for productive investment and spending coincide very closely in the first stage of their operations. The effects of both begin with consumption; in the one case a wearing away of tools and the destruction of materials, in the other a consumption say of wines, equipages, and furniture. The consequence to the material wealth has been the same. But in the spending, the first has been the final stage, while the saving person has had laborers constantly repairing the destruction, and ultimately replaces with an increase the equivalent of what has been consumed. While in the other case it is not the money which has been destroyed, but the wines, equipages, and furniture, which the money purchased, and these having been destroyed without return, society, collectively, is the poorer by the amount.

To this the superficial reasoner might answer: "To diminish unproductive expenditure would throw out of employment many of the laborers engaged in the production of articles of luxury. The choice made by a consumer to expend an amount on one class of goods keeps a certain number of laborers at work producing them." This is true to a certain extent. Any amount spent in useless luxuries keeps a certain number of laborers producing things, but things which cannot aid further production. Their services are lost, therefore, as far as regards the national wealth. To quote Mill once more :

In proportion as any class is improvident or luxurious, the industry of the country takes the direction of producing luxuries for their use. While not only the employment for productive laborers is diminished, but the subsistence and instruments which are the means of such employment exist in smaller quantity. . . . Saving, in short, enriches, and spending impoverishes the community along with the individual.

Unproductive consumption may or may not be by design according to the intelligence of the consumer. Spending primarily arises from man's inherently selfish nature. Pleasure, ambition, the love of adornment or show, each cause him to waste his substance, while the ignorant may destroy their earnings uselessly from mere incompetence or lack of forethought. The latter is well exemplified in the savage races and has caused their failure to amass wealth and consequently to attain civilization. The American aborigines, except only in Mexico and Peru, utterly lacked that provident spirit which causes all people to labor in view

of a future return. The story of the Paraguay Indians is well known. Although they had been taught by the Jesuits to be mechanics and artisans and to cultivate the soil, it was yet necessary to watch them closely lest they should consume for their evening meal the oxen they had ploughed with all day.

So it is, although to a far less degree, in the highest civilizations. Unproductive consumption, whether it result from lack of forethought or from the love of selfish indulgence, always impoverishes. The production of that which is consumed and which cannot reproduce itself, although it gives employment to a large part of the world's population, nevertheless decreases the aggregate wealth so long as it continues.

The same statement holds true of the destruction of any class of articles, whether from natural wear and tear or from useless improvidence. There is not a more common or more fallacious argument than that our hard times are caused by under-consumption, or as it is more often termed, over-production of manufactures or farm products. Economists of repute, like General Francis A. Walker, have long since pointed out that there can be no such thing as over-production. The congestion of the products of manufacture in the hands of a few traders is a temporary condition, dependent on the unequal working of the laws of distribution. The aggregate wealth is nevertheless increased and the condition of mankind finally bettered.

Those who declaim against too great production and look with delight on the rapid consumption of the wealth which has been created, do so on account of the activity which is caused thereby in the distributing trade. This prosperity, however, is superficial and has no permanence unless it is based on the stability of the productive enterprises. Frederic Bastiat has aptly illustrated this in his famous example of Jacques Bonhomme and the broken window, which, though well-known, may be summarized here.

Jacques' scapegrace son has broken a pane of glass.

His neighbors console him by pointing out that his loss is the glazier's profit. They do not see that since Jacques has been obliged to spend his six francs on one thing, he can no longer spend them on another. He cannot replace, for example, his shoes which are down at the heels, or put a new book on his shelf. The glazier's profit is increased but, if the pane had not been broken, some other trade would have profited to the same extent. Trade in general has no interest in the breaking of windows. But Jacques Bonhomme spends six francs to replace his window and gets neither more nor less than he had before. If, however, the accident had not happened, he would have spent his money on shoes and would have had the enjoyment of both the shoes and the pane of glass. So "we are forced to conclude that society, taken in the aggregate and after all accounts of labor and enjoyment have been squared, has lost the value of the pane which has been broken."

We may take it, then, as an axiom of economic truth that any careless waste or unwise consumption of material is harmful to the community. Nor would a judicious decrease in unproductive consumption result in an entire cessation of the production of articles of luxury, and a consequent throwing out of employment of the labor which produces and the traders who handle that class of commodities. The partial cessation of purchases of these articles by the wealthier classes would turn an additional amount of capital into the channels of real production, and would either furnish work to a larger number of people, or so greatly ameliorate the condition of the body of laborers already existing that they would soon be able, along with the capitalists, to consume a moderate amount of luxuries. So these articles would not cease entirely to be manufactured, but would only be curtailed in production to such an extent as would be to the best interests of the community. It follows that the idle spendthrift, the thoughtless improvident, and the speculative investor, are not only squandering their own means, but are also carrying the injury still further. It is from the pres-

ence of too many of these that our so-called panics arise. The proposition may be extended and made personal to every one, for there can be little doubt of the abstract truth of the statement that the extravagant purchase of any useless article decreases the wages of some laboring man. If this fact were more universally known, the advantage to the working classes would be immense. The consumption of luxuries is considered even by the poor as of ultimate benefit to their class; for the production of these articles gives employment to many, and the money spent in purchasing them is distributed widely. This belief, as has been shown, is a fallacy. An excessive production and consumption of luxuries is of great disadvantage to the laboring man and to society. The direct result is seen in those too numerous centres of population and wealth in which a very small rich and a very large poor class make up the social status. The well to do middle class which is necessary to all advancing civilization is comparatively absent from such centres, and the aggregate per capita wealth does not increase because labor is devoted to the production of valueless articles which are of no advantage to itself, as there is no fund of capital established for its further employment. The efforts of a great part of mankind are devoted to striving in an impossible direction. Nothing is attained. What they produce is at once consumed, and the fund to keep them further employed must come from the earnings of legitimate labor, consequently the community is in the aggregate poorer. A small class becomes very rich, a large class very poor, and the divergence grows more marked so long as this inert production continues.

Original production, however, is not to be blamed for this too frequent condition of things, but rather ultimate consumption. Labor always strives in the direction of demand. It is the excessive desire for luxuries that saps the life blood of industry and sows the seed of commercial disturbance. Every purchase of the useless keeps employed some worker who adds nothing to the world's wealth, and



the capital and labor employed in producing the useful is taxed to support him.

Let us now apply these principles to local conditions in the Southern States. The development of this section since the War has been chiefly of an industrial nature. The discovery of the availability of the great iron and coal fields in the Southern Appalachian system attracted a large investment of capital and a great immigration of population. The older agricultural regions have also had a substantial growth, but the great stride has been in manufactures. It is this that has made us cosmopolitan, united us in spirit with the rest of the States, removed sectional barriers, and made us an integral part of a nation.

We can get an idea of the magnitude of this development when we consider that in the steel and iron industries alone the capital invested has increased from \$13,000,000, in 1870, to \$50,000,000, in 1890.

The increase in the South has been greater proportionally than in any other section, as is shown by the following table, which gives the figures for tons of pig iron produced in the years 1870-80-90 in the different geographical sections of the United States:

SECTION.	1870.	1880.	1890.
New England.....	34,471	30,957	33,781
Middle.....	1,311,649	2,401,093	5,216,591
Southern.....	184,540	350,436	1,780,909
Western.....	522,161	997,535	2,548,498

The growth in all other lines of manufacturing has been as phenomenal, and the output of raw mineral products has not fallen behind. In Tennessee alone, the production of coal has increased from 350,000 tons, in 1873, to 2,527,000 in 1891. The natural effect of this great development of mineral resources has been a very rapid increase of wealth and population in these regions. This has been especially true of Southwestern Virginia, Eastern and Middle Tennessee, Northern and Central Alabama, and parts of Georgia. The increase of population, as shown by the census of 1890, is remarkable. For instance, the percentage of increase for

Hamilton county, Tennessee, was 126.22. The gain of the Chattanooga district alone being  $51\frac{1}{2}$  per cent. of that of the entire State. Jefferson county, Alabama, containing Birmingham, increased 280 per cent. The growth in capital invested is as great, the State of Alabama showing a gain of over 600 per cent. in the investments in its iron and steel industries. The effect of this great influx of population and wealth has been either the building up of old, or the founding of new cities and towns. In other words, the development was of the very healthiest character and promised stability of wealth and prosperity until the mad craze for speculation struck the country.

Then fortunes that for years had been accumulating were withdrawn from legitimate industries and invested in town lots staked off in corn fields, or in some sort of manufacturing business, the prospectus of which was as ephemeral as that of the newly created city. If this had been all, we might by now have fully recovered from the baleful effects of such investments. But the natural result of the inflated values of real estate was a confidence in ourselves and an expansion of the lines of credit to such an extent that fortunes seemed the creation of a few years at most. Great apparent prosperity in business was the result, and the unlimited personal extravagance of the people kept up for some time this appearance, only to cause the disaster to be the greater when it came. For there had really been no prosperity since industry had left its proper channels. It was merely another case of the consumption of wines, equipages, and furniture. The money spent in these destructibles had not employed labor to produce things of ultimate benefit, and the accumulated capital of years of legitimate toil was being rapidly consumed.

What brought this condition about can never be known. It was probably the natural result of the sequence of trade conditions. A retarding influence will always be present to prune unhealthy or too rapid growth. The "boom," as it was called, affected more or less all parts of the United

States at one time or another during the last ten years. In the manufacturing districts, however, it was more ill-timed and severe in its effects than in those chiefly agricultural or commercial. So we find that that portion of the South in which the greatest real growth had taken place previously, was most inflated by the "boom" and has felt its effects most severely. This is shown by a comparison of the clearing house reports of a few cities taken to represent as nearly as possible the manufacturing, commercial, and agricultural centres :

<i>Volume Clearings, Nov. '92 and '93.</i>	<i>Increase.</i>	<i>Decrease.</i>
<b>AGRICULTURAL—</b>		
Houston, Texas.....	10.4	....
Dallas, Texas.....	11.5	....
Savannah, Ga.....	....	7.8
Galveston, Texas.....	....	1.8
<b>MANUFACTURING—</b>		
Birmingham, Ala.....	....	62.3
Nashville, Tenn.....	....	62.7
Chattanooga, Tenn.....	....	52.3
<b>COMMERCIAL—</b>		
Atlanta, Ga.....	....	18.2
New Orleans, La.....	....	12.2
Memphis, Tenn.....	....	38.7
Louisville, Ky.....	....	32.7

It is easily seen from this table that during the recent panic the Southern cities depending on agricultural interests suffered least, and those depending on manufacturing most. This was due to the greater speculation and greater apparent prosperity of the latter during the period of the "boom." As we have seen, the withdrawal of capital from active production and its investment in the production of useless articles results in harm, not only to the unfortunate investor, but also to the community. The effect is just what a long period of idleness would produce. We have been most actively employed doing nothing. The people have consumed what they had saved from the hardest and most intelligent efforts of the years previous and now, their store of savings having been exhausted, there is no fund to support labor. Other bad conditions have arisen. Unnecessarily large populations have been attracted into the cities from the ru-

ral districts. This is to the detriment of both city and country. The farm needs the intelligent labor of this class of the population, and there is no employment for them in the towns. Cities should be the natural growth of normal conditions, and not be congested by an unnecessary population.

The period of inflation has left other retarding influences. A great quantity of good farming land in the neighborhood of cities has been laid off into town lots and lies idle, unused for any purpose. This property is especially adaptable to truck farming and would support a large population. Another evil consequence is the prejudice against such a section that is given to foreign capital. It is impossible to attract its investment again for a long time, even after the reaction is past. But the worst of all the effects has been the demoralization of labor. Workingmen have become trained in various pursuits which are finally proved by bitter experience to be fruitless of benefit. The proportion of manual laborers has decreased, and legitimate enterprises of reasonable profit have become so unpopular that when the reaction sets in and there is a demand for the products of genuine industry, neither capital nor competent labor is present to produce them.

Things must now be sifted back into their normal state. A period of liquidation must be suffered in order to wipe out the effects of unwise investments. The prospective great cities laid off around badly located blast furnaces must come once more under the cultivation of the plow. We must begin again to build on the old solid basis. The schemers, promoters, and other useless newcomers must be relegated to the lands from whence they came. When this is accomplished and true production begins once more, we can expect to resume real advance towards wealth and prosperity. Little comparatively has been lost, for much of the apparent shrinkage is a natural decrease from inflated values. Population has actually increased. All our grand natural resources remain, and when we consider that capital itself is not perpetuated by preservation but by reproduc-

tion, we can understand how rapid a recovery can be expected.

This “*vis medicatrix naturæ*” has astonished the world very often when a nation’s industry, after having been almost destroyed by war or plague or the elements, instead of being forever paralyzed, has developed new and hitherto undreamed of energy and vitality. But, as has been well said: “There is no cause for astonishment. What the enemy have destroyed would have been destroyed in a little while by the people themselves. . . . Nothing is changed except that during the reproduction they have not now the advantage of consuming what had been produced previously.”

So it is with the South. All we need is for industry to return to the proper channels of production. When that takes place, our recovery will be very rapid — more rapid, in fact, than that of any other part of the country similarly affected; for the South has confessedly greater resources for industrial development, together with a climate more suited to continuous labor. Therefore, with healthy conditions re-established, our growth must be sure, and our prosperity of the most enduring kind.

GEORGE F. MILTON.